CHAPTER-2

UNDERWRITING OF SHARES AND DEBENTURES

Calculation of Underwriter's Liability – Full Underwriting

Question-1

Sonic Ltd. incorporated on 1st June, 2015 issued a prospectus inviting applications for 10,00,000 equity shares of ₹ 10 each. The whole issue was fully underwritten by four underwriters:

Underwriter	S	T	U	V
Shares	4,00,000	3,00,000	2,00,000	1,00,000

Applications were received for 9,00,000 shares of which marked applications were as follows:

Underwriter	S	T	U	V
Shares	4,40,000	1,80,000	2,20,000	20,000

Find out the liability of each underwriter individually.

Solution

Statement of Underwriters Liability

Particulars	S	T	U	V	Total
Gross Liability	4,00,000	3,00,000	2,00,000	1,00,000	10,00,000
Less: Marked Applications	4,40,000	1,80,000	2,20,000	20,000	8,60,000
Less: Unmarked Application	16,000	12,000	8,000	4,000	40,000
	(56,000)	1,08,000	(28,000)	76,000	1,00,000
Division of surplus of S and U to T and V in the ratio of (3:1)	56,000	(63,000)	28,000	(21,000)	0
Net Liability	NIL	45,000	NIL	55,000	1,00,000

Question-2

A Ltd. issued 4,00,000 equity shares. The whole issue was underwritten as: X - 40%; Y - 30%; and Z - 30%. Applications for 3,20,000 shares were received in all, out of which applications for 80,000 shares had the stamp of X, those for 40,000 shares had that of Y and 80,000 shares had that of Z. The remaining applications for 1,20,000 shares did not bear any stamp.

Find out the liability of the individual underwriters in each of the following situations:

i. Unmarked applications are apportioned in the ratio of "Gross Liability"; and

ii. Unmarked applications are apportioned in the ratio of "Gross Liability Less Marked Applications".

Solution

1. <u>Unmarked applications are apportioned in the ratio of "Gross Liability"</u>

Statement of Underwriters Liability

Particulars	X	Y	Z
Gross Liability	1,60,000	1,20,000	1,20,000
Less: Marked Applications	80,000	40,000	80,000
Less: Unmarked Application (1,20,000; 4:3:3)	48,000	36,000	36,000
Net Liability	32,000	44,000	4,000

2. <u>Unmarked applications are apportioned in the ratio of "Gross Liability" Less Marked Application</u>

Statement of Underwriters Liability

Particulars	X	Y	Z
Gross Liability	1,60,000	1,20,000	1,20,000
Less: Marked Applications	80,000	40,000	80,000
	80,000	80,000	40,000
Less: Unmarked Application (1,20,000; 2:2:1)	48,000	48,000	24,000
Net Liability	32,000	32,000	16,000

Question-3

M Ltd., incorporated on April 1, 2021, issued a prospectus inviting applications for 5,00,000 equity shares of ₹10 each. The issue was fully underwritten by A, B, C and D as follows:

A - 2,00,000; B - 1,50,000; C - 1,00,000; and D - 50,000.

The applications were received for 4,50,000 shares of which marked applications were as follows:

A - 2,20,000; B- 90,000; C - 1,10,000; and D - 10,000.

Find out the liability of the individual underwriters in each of the following cases:

i. Unmarked applications are apportioned in the ratio of "Gross Liability"; and

ii. Unmarked applications are apportioned in the ratio of "Gross Liability (-) Marked Applications".

Solution

1. **When Unmarked applications are apportioned in the ratio of "Gross Liability"**

Calculation of Liability of the underwriters (No. of shares)

Particulars	A	B	C	D
Gross Liability	2,00,000	1,50,000	1,00,000	50,000
Less: Marked Applications	2,20,000	90,000	1,10,000	10,000
	(20,000)	60,000	(10,000)	40,000
Less: Unmarked Applications	8,000	6,000	4,000	2,000
	(28,000)	54,000	(14,000)	38,000
Surplus of A & C apportioned between B & D in the ratio of Gross Liability	28,000	(31,500)	14,000	(10,500)
Net Liability	Nil	22,500	Nil	27,500

Working:

Unmarked applications = Total applications received – Marked applications

= 4,50,000 – (2,20,000 + 90,000 + 1,10,000 + 10,000) = 20,000

Unmarked applications are apportioned in the ratio of "Gross Liability" i.e., 4:3:2:1

2. **When Unmarked applications are apportioned in the ratio of "Gross Liability (-) Marked Applications"**

Calculation of Liability of the underwriters (No. of shares)

Particulars	A	B	C	D
Gross Liability	2,00,000	1,50,000	1,00,000	50,000
Less: Marked Applications	2,20,000	90,000	1,10,000	10,000
	(20,000)	60,000	(10,000)	40,000
Surplus of A & C apportioned between B & D in the ratio of Gross Liability	20,000	22,500	10,000	7,500
	Nil	37,500	Nil	32,500
Less: Unmarked Applications	Nil	10,714	Nil	9,286
Net Liability	Nil	26,786	Nil	23,214

Working:

Total surplus = 20,000 + 10,000 = 30,000

This is to be apportioned between B and D in 150000:50000 = 3:1

Unmarked applications = Total applications received – Marked applications

= 4,50,000 – (2,20,000 + 90,000 + 1,10,000 + 10,000) = 20,000

Unmarked applications are apportioned between B and D in the ratio of "Gross Liability (-)

Marked Applications "= i.e., 37,500: 32,500 = 15:13

Question-4

M Ltd., incorporated on April 1, 2021, issued a prospectus inviting applications for 2,50,000 equity shares of ₹10 each. The issue was fully underwritten by A, B, C and D as follows:

A - 1,00,000; B - 75,000; C - 50,000; and D - 25,000.

The applications were received for 2,25,000 shares of which marked applications were as follows:

A - 1,10,000; B- 45,000; C - 55,000; and D - 5,000.

Unmarked applications are apportioned in the ratio of Gross Liability.

You are required to determine the Underwriter's liability in shares.

(2022 Syllabus June-23, 4 Marks)

Solution

Statement of Underwriters Liability

Particulars	A	B	C	D
Gross Liability	1,00,000	75,000	50,000	25,000
Less: Marked Applications	1,10,000	45,000	55,000	5,000
Less: Unmarked Application	4,000	3,000	2,000	1,000
	(14,000)	27,000	(7,000)	19,000
Division of surplus of A and C to B and D in the ratio of 3:1	14,000	(15,750)	7,000	(5,250)
Net Liability	-	11,250	-	13,750

Question-5

M Ltd., incorporated on April 1, 2021, issued a prospectus inviting applications for 5,00,000 equity shares of ₹10 each. The issue was fully underwritten by A, B, C and D as follows:

A - 2,00,000; B – 1,50,000; C – 1,00,000; and D - 50,000.

The applications were received for 4,50,000 shares of which marked applications were as follows:

A – 2,20,000; B- 90,000; C – 1,10,000; and D - 10,000.

Unmarked applications are apportioned in the ratio of "Gross Liability". Underwriters' commission: 4% of the issue price.

Required:

a. Determine the underwriters' liability in shares;

b. Determine the underwriters' liability in amount;

(Dec-22, 8 Marks)

Solution

Statement of Underwriters Liability

Particulars	A	B	C	D
Gross Liability	2,00,000	1,50,000	1,00,000	50,000
Less: Marked Applications	2,20,000	90,000	1,10,000	10,000
Less: Unmarked Application	8,000	6,000	4,000	2,000
	(28,000)	54,000	(14,000)	38,000
Division of surplus of A and C to B and D in the ratio of 3:1	28,000	(31,500)	14,000	(10,500)
Net Liability	-	22,500	-	27,500

Calculation of net cash paid/received from underwriters

Particulars	A	B	C	D
Underwriting commission payable on Shares underwritten (Gross Liability x 10) x 4 %	80,000	60,000	40,000	20,000
Less: Liability in amount (Net Liability x 10)	-	(2,25,000)	-	(2,75,000)
Net amount payable/(receivable) (in ₹)	80,000	(1,65,000)	40,000	(2,55,000)

Question-6

M Ltd., incorporated on April 1, 2021, issued a prospectus inviting applications for 2,50,000 equity shares of ₹10 each. The issue was fully underwritten by A, B, C and D as follows:

A - 1,00,000; B - 75,000; C - 50,000; and D - 25,000.

The applications were received for 2,25,000 shares of which marked applications were as follows:

A – 1,10,000; B- 45,000; C - 55,000; and D - 5,000.

Unmarked applications are apportioned in the ratio of "Gross Liability". Underwriters' commission: 4% of the issue price.

Required:

c. Determine the underwriters' liability in shares;

d. Determine the underwriters' liability in amount;

e. Pass journal entries in the books of M Ltd. to record the above transactions.

Solution

Statement of Underwriters Liability

Particulars	A	B	C	D
Gross Liability	1,00,000	75,000	50,000	25,000
Less: Marked Applications	1,10,000	45,000	55,000	5,000

Less: Unmarked Application	4,000	3,000	2,000	1,000
	(14,000)	27,000	(7,000)	19,000
Division of surplus of A and C to B and D in the ratio of 3:1	14,000	(15,750)	7,000	(5,250)
Net Liability	-	11,250	-	13,750

Calculation of net cash paid/received from underwriters:

Particulars	A	B	C	D
Underwriting commission payable on Shares underwritten (Gross Liability x 10) x 4 %	40,000	30,000	20,000	10,000
Less: Liability in amount (Net Liability x 10)	-	(1,12,500)	-	(1,37,500)
Net amount payable/(receivable) (in ₹)	40,000	(82,500)	20,000	(1,27,500)

In the books of M Ltd.

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	B A/c	Dr.		1,12,500	
	D A/c	Dr.		1,37,500	
	To Share Capital A/c				2,50,000
	(Being shares allotted to underwriters as per Board's resolution no…. dated….)				
	Underwriting Commission A/c	Dr.		1,00,000	
	To A A/c				40,000
	To B A/c				30,000
	To C A/c				20,000
	To D A/c				10,000
	(Being underwriting commission payable to underwriters)				
	Bank A/c	Dr.		2,10,000	
	To B A/c				82,500
	To D A/c				1,27,500
	(Being amount received from B and D)				
	A A/c	Dr.		40,000	
	C A/c	Dr.		20,000	

	To Bank A/c				60,000
	(Being amount paid to A and C)				

Firm Underwriting Under Full Underwriting

Question-7

The following underwriting took place for P Ltd. which invited applications for 10,000 shares of ₹ 10 each:

X: 6,000 shares Y: 2,500 shares Z: 1,500 shares

In addition, there were firm underwriting as follows:

X: 800 shares Y: 300 shares Z: 1,000 shares

Total subscription including firm underwriting was 7,100 shares, and the forms included the following marked forms:

X: 1,000 shares Y: 2,000 shares Z: 500 shares

Show the allocation of liability of the underwriters, if -

i. **Firm underwriting is treated as marked applications.**
ii. **Firm underwriting is treated as unmarked applications**

Solution

1. **When firm underwriting is treated as unmarked applications.**

Calculation of Liability of the underwriters (No. of shares)

Particulars	X	Y	Z
Gross Liability	6,000	2,500	1,500
Less: Marked Applications	1,000	2,000	500
	5,000	500	1,000
Less: Unmarked Applications	2,160	900	540
	2,840	(400)	460
Surplus of Y apportioned between X & Z in the ratio of Gross Liability (12:3 or 4:1)	(320)	400	(80)
Net Liability under contract	2,520	Nil	380
Add: Firm Underwriting	800	300	1,000
Net Liability	3,320	300	1,380

Working:

Allocation of unmarked applications

Total Applications (including marked and firm underwriting) = 7,100

Marked applications = 1000 + 2000 + 500 = 3,500

Unmarked applications including firm underwriting = 7,100 – 3,500 = 3,600 to be shared in

Gross Liability i.e., 6000:2500:1500 = 12:5:3.

2. When firm underwriting is treated as marked applications.

Calculation of Liability of the underwriters (No. of shares)

Particulars	X	Y	Z
Gross Liability	6,000	2,500	1,500
Less: Marked Applications including firm underwriting	1,800	2,300	1,500
	4,200	200	Nil
Less: Unmarked Applications	900	375	225
	3,300	(175)	(225)
Surplus of Y and Z apportioned to X	(400)	175	225
Net Liability under contract	2,900	Nil	Nil
Add: Firm Underwriting	800	300	1,000
Net Liability	3,700	300	1,000

Working:

Marked Applications including firm underwriting

Particulars	X	Y	Z
Marked applications	1,000	2,000	500
Add: Firm underwriting	800	300	1,000
	1,800	2,300	1,500

Allocation of unmarked applications

Total applications (including marked and firm underwriting) = 7,100

Marked applications (including firm underwriting) = 1800 + 2300 + 1500 = 5,600

Unmarked applications = 7,100 – 5,600 = 1,500 to be shared in Gross Liability i.e., 6000:2500:1500 = 12:5:3

Question-8

Ratan & Co Ltd issued 10,000 shares of ₹100 each at a Premium of ₹20 per share. The entire issues were underwritten as follow:

A	**5,000 Shares**	**Firm underwriting 1,000 shares**
B	**3,000 Shares**	**Firm underwriting 500 shares**
C	**2,000 Shares**	**Firm underwriting 500 shares**

Shares applied for were 9,000 shares. The following being the marked forms - A 3,500 shares, B 1,400 shares, C 1,600 shares including firm under writing.

Compute the liability of each underwriter and compute how much commission will each underwriter get assuming it is the maximum allowed by law?

Solution

Statement showing liability of Underwriters

Particulars	A	B	C
Gross Liability	5,000	3,000	2,000
Less: Marked Application including Firm Applications	3,500	1,400	1,600
Less: Unmarked application (5:3:2)	1,250	750	500
Balance	250	850	(100)
Division of surplus of C to A and B in the ratio of 5:2	(63)	(37)	100
Net Liability	187	813	0
Add: Firm underwriting	1,000	500	500
Total Liability	1,187	1,313	500

Commission will be @ 5% of the issue price of shares under written as shown below.

A = 5,000 x 120 x 5% = 30,000

B= 3,000 x 120 x 5% = 18,000

C = 2,000 x 120 x 5% = 12,000

Question-9

ABC Ltd. issued 40,000 Equity shares. Three Underwriters were appointed to underwrite the shares and the shares were underwritten as under:

Underwriter	No. of Shares Underwritten
X	**24,000**
Y	**10,000**
Z	**6,000**

The above Underwriters made application for 'firm' underwriting as under:

Underwriter X for 3,200 Shares, Underwriter Y for 4,000 Shares and underwriter Z for 1,200 Shares.

The Company received application for 20,000 Shares, excluding 'firm' underwriting but including marked applications which were as under:

Underwriter	Marked application for No. of Shares
X	**4,000**
Y	**5,000**
Z	**2,000**

You are required to calculate the allocation of liability of the respective Underwriters.

(As per contract, the Underwriters are to be given credit for 'firm' applications and that credit for unmarked applications be given in proportion to the shares underwritten.)

(Dec-13, 4 Marks)

Solution

Statement showing liability of Underwriters

Particulars	Underwriter X	Underwriter Y	Underwriter Z	Total
Gross Liability	24,000	10,000	6,000	40,000
Less: Firm underwriting	3,200	4,000	1,200	8,400
Less: Marked Application	4,000	5,000	2,000	11,000
Less: Unmarked application (24:10:6)	5,400	2,250	1,350	9,000
Balance	11,400	(1,250)	1,450	11,600
Division of surplus of Y to X and Z in the ratio of 4:1	(1,000)	1,250	(250)	-
Net Liability	10,400	-	1,200	11,600
Add: Firm underwriting	3,200	4,000	1,200	8,400
Total Liability	13,600	4,000	2,400	20,000

Question-10

T Ltd. invited applications from public for 2,00,000 shares of ₹ 100 each at a premium of ₹ 20 per share. The entire issue was fully underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20 % and 20% respectively with the provision of Firm underwriting of 6,000; 4,000; 2,000 and 2,000 shares respectively.

The Company received applications for 1,40,000 shares from public out of which applications for 38,000, 20,000, 42,000 and 16,000 shares were marked in the favour of A, B, C and D respectively. The applications received from the public do not include Firm Underwriting.

Calculate the liability of each of underwriters.

(June-24, 7 Marks)

Solution

Statement showing liability of Underwriters

Particulars	A	B	C	D
Gross Liability	60,000	60,000	40,000	40,000
Less: Firm underwriting	6,000	4,000	2,000	2,000

	54,000	56,000	38,000	38,000
Less: Marked Application	38,000	20,000	42,000	16,000
Less: Unmarked application (24,000; 3:3:2:2)	7,200	7,200	4,800	4,800
Balance	8,800	28,800	(8,800)	17,200
Division of surplus of C to A, B and C in the ratio of 3:3:2	(3,300)	(3,300)	8,800	(2,200)
Net Liability	5,500	25,500	-	15,000
Add: Firm underwriting	6,000	4,000	2,000	2,000
Total Liability	11,500	29,500	2,000	17,000

Author's Note on treatment of Firm Underwriting

In above solution we have considered firm underwriting as marked application, as nothing is mentioned in the question about the treatment of firm underwriting. Alternatively we can consider it as unmarked application instead of marked.

Question-11

Seth Co. Ltd. issued 20,000 shares which were underwritten as:

Ram: 12,000 shares, Raghu: 5,000 shares and Ravi: 3,000 shares.

The underwriters made applications for firm underwriting as follows:

Ram: 1,600 shares; Raghu: 600 shares; Ravi: 2,000 shares.

The total subscriptions excluding firm underwriting (including marked applications) were 10,000 shares.

The marked applications were:

Ram: 2,000 shares; Raghu: 4,000 shares; Ravi: 1,000 shares.

Show the net liability of underwriters (number of shares).

(June-15, 6 Marks)

Solution

Statement of Underwriters' Liability

(Firm underwriting shares are treated as unmarked applications)

	Ram	Raghu	Ravi	Total
Gross Liability	12,000	5,000	3,000	20,000
Less: Marked-applications	2,000	4,000	1,000	7,000
Less: Unmarked applications including Firm Underwriting in the ratio of gross liability (12:5:3)	4,320	1,800	1,080	7,200

Balance	5,680	(800)	920	5,800
Credit of Raghu's over subscription to Ram &Ravi in the ratio of 12:3	(640)	800	(160)	-
Net Liability	5,040	-	760	5,800
Add: firm underwriting	1,600	600	2,000	4,200
Total Liability	6,640	600	2,760	10,000

Author's Note Firm Underwriting:

In above question Firm Underwriting has been treated as unmarked application. Alternatively, Firm Underwriting can be treated as Marked Application by giving a note.

Question-12

ZIL Ltd. floated a public issue of 37,500 equity shares having face value of ₹10 each at par. Vineet, Vikash and Vikram has taken underwriting of the issue in equal share with firm underwriting of 6,250, 5,000 and 5,000 shares respectively. Applications were received for 36,500 shares out of which the marked applications were as under:

Vineet: 6,150 shares, Vikash: 5,000 shares, Vikram:3,750 shares

Credit of unmarked applications is to be given to underwriters equally.

The agreed underwriting commission was 5%. Total amount payable on application and allotment was ₹ 5 and balance in calls.

You are required to show:

i. **Liability of each underwriter in shares and amount both,**
ii. **Commission due to underwriters,**
iii. **Net cash paid/ received from underwriters.**

(2012 Syllabus Dec-17, 8 Marks)

Solution

i. **Calculation of Liability of each underwriter**

Particulars	Vineet	Vikaash	Vikram	Total
Gross liability	12,500	12,500	12,500	37,500
Less: Marked applications	(6,150)	(5,000)	(3,750)	(14,900)
Less: Unmarked applications (including firm underwriting)	(7,200)	(7,200)	(7,200)	(21,600)
	(850)	300	1,550	1,000
Less: Surplus of Vineet allocated to Vikash & Vikram	850	(300)	(550)	-

Net Liabilities	-	-	1,000	1,000
Add: Firm underwriting	6,250	5,000	5,000	16,250
Total liability in shares	6,250	5,000	6,000	17,250
Total liability in amount @ ₹10	62,500	50,000	60,000	1,72,500

ii. **Commission due = 12,500 × ₹10 × 5% = ₹6,250 each**

iii. **Calculation of net cash paid/received from underwriters:**

Particulars	Vineet	Vikaash	Vikram	Total
Total liability in amount	62,500	50,000	60,000	1,72,500
Less: Underwriting commission payable @5% on amount underwritten	(6,250)	(6,250)	(6,250)	(18,750)
	56,250	43,750	53,750	1,53,750
Amount already paid @ ₹5	(31,250)	(25,000)	(25,000)	(81,250)
Net amount paid (in ₹)	25,000	18,750	28,750	72,500

Question-13

Masood Ltd. came out with an issue of 45,00,000 equity shares of ₹10 each at a premium of ₹2 per share. The promoters took 20% of the issue and the balance was offered to the public. The issue was equally underwritten by A & Go; B & Co. and C &. Co.

Each underwriter took firm underwriting of 1,00,000 shares each. Subscriptions for 31,00,000 equity hares were received with marked forms for the underwriters as given below:

Underwriters	No. of Shares
A & Co.	**7,25,000**
B & Co.	**8,40,000**
C & Co.	**13,10,000**
Total	**28,75,000**

The underwriters are eligible for a commission of 5% on face value of shares. The entire amount towards shares subscription has to be paid along with application.

You are required to:

i. **Compute the Underwriters liability (number of shares)**
ii. **Compute the amounts payable or due to underwriters; and**
iii. **Pass necessary Journal entries in the books of C Ltd. relating to underwriting.**

(Note: As per contract, the underwriters are to be given credit for firm applications and that credit for unmarked applications be given in proportion to the shares underwritten.)

(Dec-14, 8 Marks)

Solution

Computation of Liabilities of Underwriters (No. of Shares)

Particulars	P	Q	R
Gross Liability	12,00,000	12,00,000	12,00,000
Less: Firm Underwriting	1,00,000	1,00,000	1,00,000
	11,00,000	11,00,000	11,00,000
Less: Marked Application	7,25,000	8,40,000	13,10,000
	3,75,000	2,60,000	(2,10,000)
Less: Unmarked Application distributed in equal ratio among P & Q	1,12,500	1,12,500	NIL
	2,62,500	1,47,500	(2,10,000)
Less: Surplus of R distributed to P & Q	(1,05,000)	(1,05,000)	2,10,000
Net Liability (excluding firm underwriting)	1,57,500	42,500	NIL
Add: Firm Underwriting	1,00,000	1,00,000	1,00,000
Total Liability (No. of Shares)	2,57,500	1,42,500	1,00,000

Computation of amount payable by underwriters

Particulars	P	Q	R
Liability towards shares to be subscribed @ 12 per share	30,90,000	17,10,000	12,00,000
Less: Commission (5% on 12 lakhs @ ₹ 10 each)	6,00,000	6,00,000	6,00,000
Net Amount to be paid by underwriters	24,90,000	11,10,000	6,00,000

In the books of M Ltd.

Journal Entries

Date	Particulars		L.F.	Debit (₹)	Credit (₹)
	Underwriting Commission A/c	Dr.		18,00,000	
	To P Ltd. A/c				6,00,000
	To Q Ltd. A/c				6,00,000
	To R Ltd. A/c				6,00,000
	(Being underwriting commission payable to underwriters)				
	P Ltd	Dr.		30,90,000	
	Q Ltd	Dr.		17,10,000	
	R Ltd	Dr.		12,00,000	

	To Equity Share Capital A/c				50,00,000
	To Share Premium A/c				10,00,000
	(Being Shares including firm underwritten shares allotted to underwriters)				
	Bank A/c	Dr.		42,00,000	
	To P Ltd. A/c				24,90,000
	To Q Ltd. A/c				11,10,000
	To R Ltd. A/c				6,00,000
	(Being the amount received towards shares allotted to underwriters, less underwriting commission due to them)				

Question-14

A joint stock company resolved to issue 5 lakh equity shares of ₹10 each at a premium of ₹1 per share. 50,000 of these shares were taken up by the directors and their relatives, the entire amount being received forthwith. The remaining shares were offered to the public, the entire amount being asked for with applications.

The issue was underwritten by P, Q and R for a commission of 2% of the issue price. 65% of the issue was underwritten by P, while Q and R's share were 25% and 10% respectively.

Their firm underwriting was as follows:

P - 15,000 shares, Q – 10,000 shares and R – 5,000 shares.

The underwriters were to submit unmarked applications for shares underwritten firm with full application money along with the members of the general public.

Marked applications were as follows:

P - 59,750 shares, Q – 28,750 shares and R – 5,250 shares.

Unmarked applications totaled 3,50,000 shares. Accounts with the underwriters were promptly settled.

You are required to:

a. **Prepare a statement calculating underwriters' liability for shares other than shares underwritten firm.**
b. **Pass necessary journal entries (narration not required) for all the transactions including the cash transactions.**

(June-17, 8 Marks)

Solution

Total number of shares issued	5,00,000
Less: Shares taken by the directors etc.	(50,000)
Shares offered to public Calculation of underwriters' liability	4,50,000

Computation of Liabilities of Underwriters (No. of Shares)

Particulars	P	Q	R
Gross liability (65:25:10)	2,92,500	1,12,500	45,000
Less: Marked application	59,750	28,750	5,250
Less: Unmarked application in the ratio of gross liability	2,27,500	87,500	35,000
Resultant liability (or surplus)	5,250	(3,750)	4,750
Surplus of Q allocated to P and R in the ratio of 65:10	3,250	3,750	500
Net liability	2,000	Nil	4,250

Workings: Calculation of amount due from/to underwriters

Particulars	P	Q	R
No. of shares to be subscribed as per agreement (exc. Firm)	2,000	Nil	4,250
Amount payable @ ₹ 11	22,000	Nil	46,750
Underwriting commission @2 %			
P: (2,92,500×11×2%)	64,350		
Q: (1,12,500×11×2%)		24,750	
R: (45,000×11×2%)			9,900
Amount (paid) / received	(42,350)	(24,750)	36,850

Calculation of Underwriter's Liability – Partial Underwriting

Question-15

C Ltd. offered for the issue of 3,00,000 equity shares of ₹ 10 each. The issue was partially underwritten by M, N and O as follows: M - 40%; N - 30%; O - 20%. Applications were received for 2,40,000 shares of which marked applications were as follows:

M – 1,05,600 shares; N - 78,000 shares; O - 50,000 shares.

There was no firm underwriting.

Required:

a. Compute the liability of the underwriters,

b. Determine how many share-remain unissued.

Solution

a. Calculation of Liability of the underwriters (No. of shares)

Particulars	M	N	O
Gross Liability	1,20,000	90,000	60,000
Less: Marked Applications	1,05,600	78,000	50,000
Net Liability	14,400	12,000	10,000

b. Shares remained unissued = 3,00,000 – 2,40,000 – (14,400 + 12,000 + 10,000) = 23,600 shares.

Firm Underwriting Under Partial Underwriting

Question-16

Mr. X underwrites 60% of an issue of 20,000 shares of ₹100 each of ABC Ltd. He has also agreed for a firm underwriting for 1,600 shares. The company received applications for 13,600 shares out of which were 8,000 marked applications. Determine the number of shares to be taken up by Mr. X:

i. **If the underwriting contract provides that no abatement would be allowed in respect of shares taken up 'firm'.**
ii. **If the underwriting contract provides that abatement would be allowed in respect of shares taken up 'firm'.**

Solution

Gross Liability = 20,000 x 60% = 12,000 shares

Deficit of the underwriter = Gross Liability (-) Marked Applications

= 12,000 – (8,000 + 1,600) = 2,400.

No. of unsubscribed shares = Total no. of shares offered (–) No. of shares subscribed (including marked applications)

= 20,000 – 13,600 = 6,400 shares.

Net Liability under the underwriting contract = 6,400 or 2,400 – lower of the two = 2,400

Case (a) When no abatement would be allowed in respect of shares taken up 'firm'

Number of shares to be taken up by the underwriter =. 'Net Liability under the underwriting contract' + Firm Underwriting = 2,400 + 1,600 = 4,000 shares

Case (b) When abatement would be allowed in respect of shares taken up 'firm'

Number of shares to be taken up by the underwriter = 'Net Liability under the underwriting contract' or Firm Underwriting – whichever is higher. = 2,400 or 1,600 – higher of the two = 2,400 shares.

Question-17

H Ltd. issued 1,50,000 shares which are underwritten as follows:

A – 50%; B - 20%; and C - 20%.

The underwriters made applications for firm underwriting as under:

A - 6,000 shares, B - 3,000 shares, and C - 3,000 shares.

The total subscriptions including firm underwriting was 1,45,500 shares and they included the following marked forms:

A - 78,000 shares, B - 27,000 shares, and C – 28,500 shares.

Compute the liability of each underwriter assuming shares underwritten 'firm' are treated as marked applications.

Solution

Calculation of Liability of the underwriters (No. of shares)

Particulars	A	B	C
Gross Liability	75,000	30,000	30,000
Less: Marked Applications including firm underwriting	78,000	27,000	28,500
	(3,000)	3,000	1,500
Surplus of A apportioned between B and C in the ratio of gross liability i.e., 20%: 20% or 1:1	3,000	(1,500)	(1,500)
Net Liability under contract	Nil	1,500	Nil
Add: Firm Underwriting	6,000	3,000	3,000
No. of shares to be taken up	6,000	4,500	3,000

Multiple Choice Questions [MCQs]

1. Underwriting Agreements are of

a. One type
b. Two types
c. Three types
d. Four types

2. An underwriter

a. Guarantees that if the public does not take up all shares the underwriters will purchase the remaining shares.
b. Agrees to receive an underwriting commission at the prescribed percentage allowed as per law.
c. Both (A) and (B)
d. (A) only not (B)

3. Underwriting commission payable on the shares taken up by the promoters is

a. 2.5%
b. 2%
c. 5%
d. Nil

4. Before entering into an agreement with the company, the underwriters assess which of the following?

a. worth of the public issue
b. Market response to the issue
c. Own ability of the issue to get the issue fully subscribed
d. All of the above

5. In case of issue of shares, the under-writing commission shall not exceed

a. 5% of the issue price
b. 2.5% of the issue price
c. 5% of the Nominal Value
d. 2.5% of the Nominal Value

6. In case of issue of Debentures, the under-writing commission shall not exceed

a. 5% of the issue price
b. 2.5% of the issue price
c. 5% of the Nominal Value
d. 2.5% of the Nominal Value

7. A definite commitment by the underwriter to take up a specified number of shares or debentures of a company irrespective of the number of shares or debentures subscribed for by the public is known as

a. Definite underwriting
b. Pakka underwriting
c. Firm underwriting
d. Marked underwriting

8. When an entire issue of securities is underwritten by two or more underwriters jointly, it is referred to as

a. Full underwriting
b. Firm underwriting
c. Regular underwriting
d. Syndicate underwriting

9. If total issue size is 2,00,000 and the underwriter commits for 100% underwriting at a commission of 4%, what will be the commission payable, if number of Applications received is 1,40,000. The issue price of Shares is ₹ 12 for each ₹ 10 face value of shares.

a. ₹ 28,800 [Dec-23]
b. ₹ 28,000
c. ₹ 96,000
d. ₹ 30,800

10. Applications bearing the stamp of the respective underwriter are called as:

a. Firm applications
b. Stamped applications
c. Marked application
d. Underwritten applications

Answers

1.	2.	3.	4.	5.	6.	7.	8.	9.	10.
b	c	d	d	a	b	c	d	c	c